

Santa's Stocking

What's in Store for Christmas?

GUY HOOPERguy.hooper@forsythbarr.co.nz
+64 4 495 5255**ASHTON OLDS**ashton.olds@forsythbarr.co.nz
+64 9 368 0127

Whilst 2020 has been a turbulent year for the sector, many retailers are approaching the Christmas sales period with a sense of optimism as consumer momentum continues. Over the last two months, the majority of the listed New Zealand retailers have provided positive trading updates signalling sales ahead of expectations. In addition, gross margin expansion has been a key feature, likely as a result of lower discounting activity given both the buoyant backdrop and tight inventory positions. Although 2020 retail sales have recovered, we remain cognisant of a possible economic overhang into 2021. Within the sector Kathmandu (KMD) is our preferred pick for the year ahead, given its leverage to favourable purchasing trends (outdoor recreation) which is backed by recognisable brands, with a possible recovery trade from further easing of restrictions internationally through its Rip Curl business.

Retail trends and themes into Christmas

- **A reallocation of spend** – Consumers appetite to spend appears healthy heading into Christmas with 1) household deposits remaining elevated having jumped during lockdown, and 2) the lack of any travel bubble, which will drive continued reallocation of usual international travel spend.
- **Consumer momentum continues** – Sales momentum remains robust in recent weeks, and purchasing intent surveys are signalling spend on Christmas presents +10% ahead of the prior year period.
- **Homeware and electronics outperforming** – Nesting has been the theme of 2020 consumer spend, as lockdowns drove investment in the home environment. We expect this trend to continue into Christmas, supported by a buoyant housing market.
- **Online acceleration** – The acceleration of online penetration has been significant in 2020. Online sales to October are up +17% year to date, and represent 9.5% of total retail spend (8.1% in the prior comparable period). Since the introduction of GST collection on international websites in late 2019, domestic operators have taken meaningful share.
- **Inventory concerns** – Supply chain congestion has led to limited inventory on shelves. Whilst the New Zealand listed retailers have reiterated inventory positions are sufficient for the Christmas period, there is scope that shortages worsen into 2021.

Black Friday insights

Black Friday has eclipsed Boxing Day as the biggest sales period of the year in New Zealand, experiencing +27% growth (online and offline) on the prior year as consumers took advantage of pre-Christmas sales. The top performing categories online in November provide some insight into what New Zealander's are buying in the lead up to Christmas. Homeware, appliances & electronics online sales jumped +61% in November against the prior year period, while Apparel sales lifted +45%.

What's on the Christmas shopping list?

For last minute Christmas shopping ideas, our in-depth analysis of this season's top sellers will keep the family happy. With supply chain congestion, purchasing in store is your best bet in order to have gifts under the tree in time. In this report we highlight what's been in demand in the lead up to Christmas, with selfie lights and microfibre pillows making Afterpay's top five gifts purchased, and what's on trend in 2020, with chess boards and Sharsies vouchers making the list.

Merry Christmas and best wishes for a happy and safe holiday season

Christmas Retail

Figure 1. NZ listed retail sector

Company	Ticker	Rating	Price	Target price	12m fwd cash yield	12m fwd EV / EBIT	12m fwd PE
Briscoe Group	BGP	n/a	5.34	n/a	3.9%	11.7x	20.0x
Kathmandu Group	KMD	OUTPERFORM	1.26	1.65	4.1%	9.5x	15.8x
Michael Hill International	MHJ	OUTPERFORM	0.69	0.68	7.1%	4.1x	8.7x
Restaurant Brands	RBD	NEUTRAL	11.85	13.50	n/a	23.1x	30.6x
The Warehouse Group	WHS	n/a	2.73	n/a	5.7%	5.4x	10.5x

Source: Bloomberg, Forsyth Barr analysis

What's on the Christmas list?

For last minute Christmas shopping ideas, our in-depth analysis of this season's top sellers will keep the family happy. 2020 is shaping up to be a strong Christmas for retailers, with consumer spending boosted by lockdown savings and a reallocation of international travel spend. The biggest purchasing trend of the year has been "nesting", perfecting the at-home environment, with electronics and homeware outperforming. We expect these categories will likely continue to be beneficiaries through Christmas.

Electronics and toys

- **PlayStation 5** — Sony's new gaming console is a highly sought after but out of reach for most, having been sold out nationwide since its release in November. The NZ\$850rrp consoles are selling for north of NZ\$1,500 on TradeMe.
- **Chess boards** — Hit Netflix show The Queen's Gambit has introduced a new generation to Chess and revived interest in the board game.
- **Disney+ subscription** — Movie theatres globally are closed and the big studios are releasing straight to streaming sites. Disney's control of the box office is extending into the home theatre.
- **Theragun massage therapy device** — 2020 is a year for therapy, and the Theragun offers the perfect response to the combination of home workouts and a desire for social distancing.

Homeware

- **Microfibre pillows** — A surprising inclusion in Afterpay's top 5 purchase list in the lead up to Christmas, the microfibre pillow from Briscoes is a top pick for allergy sufferers.
- **Selfie lights** — Another inclusion in the Afterpay top 5, make sure you're looking good for those work from home Zoom calls with the best lighting.
- **Dog beds, cat poles, or maybe a pet portrait** — Dog days of the pandemic created a thriving economy for man's best friend with pet ownership rates surging.

Food and beverage

- **Restaurant vouchers** — Unlike much of the rest of the world, New Zealand food service is open for business. With suppressed global demand, a high NZ dollar, and freight challenges, expect to see further prevalence of high quality New Zealand produce on menu. Scampi anyone?
- **Australian wine** — With large tariffs imposed on Australian wine by the Chinese Government, there may be an opportunity for good deals on a Barossa Valley Shiraz.
- **Lockdown Christmas Hamper** — Help avoid the risk of in store madness and give the gift of face masks, sanitiser, flour, frozen pizza, and toilet paper to someone special.

Apparel

- **Athleisure wear** — "Working from Home" will be popular for beach house owners over January, and athleisure wear is the unofficial uniform.
- **Surfboards and wetsuits** — A surf renaissance has occurred given the inherent social distancing of the sport.
- **Team New Zealand Merchandise** — The best way to prove that every four years you suddenly become an expert in sailing. "It's Jibe not Jive!"

Investments

- **Sharesies voucher** — 2020 saw retail investors flood our local markets in an unprecedented way, buoyed by FOMO (fear of missing out on the market recovery) and TINA (there is no alternative with deposit rates at record lows).

Retailers expectations for Christmas

Given the buoyant operating environment and recent sales strength, most of the listed New Zealand retailers have provided trading updates ahead of the peak Christmas sales period. We summarise the key comments below.

Kathmandu (KMD) – Trading update 25 November

- **Recent sales:** More positives than negatives with the seasonally important Rip Curl business same store sales up +27% on the prior year period in 1Q21. Kathmandu brand sales lagged, down -7.6% on a SSS basis with travel linked products weighing on performance.
- **International operations:** Whilst a resurgence in COVID-19 cases and subsequent lockdowns internationally is disappointing, it is a seasonal low for Northern Hemisphere Rip Curl sales. Encouragingly the wholesale order book has recovered ahead of pre-COVID-19 levels, an encouraging sign into 2H21.

Michael Hill (MHJ) – Trading update 9 December

- **Recent sales:** Group same store sales accelerated in recent months, up +8.5% in October/November against the prior year period (up +7.9% for the financial year to date). Sales strength is coupled with gross margin expansion, up +200bp on the prior year period.
- **International operations:** Ontario Canada has recently re-entered lockdown with it expected to be in place for at least a month in the major cities. Whilst disappointing, the stores affected are not overly material from a group context and we estimate a six week lockdown would represent less than 2% of group annual sales.
- **Outlook commentary:** MHJ has signalled a material lift in 1H21 underlying EBIT against the prior year (1H20 A\$31.6m), before taking into account wage subsidies captured in the period (c. A\$13m).

Hallenstein Glassons (HLG) – ASM commentary 9 December

- **Recent sales:** Sales up +15% against the prior year in the 18 weeks to 5 December, driven predominantly by online strength with bricks & mortar growth lagging, particularly in CBD locations.
- **Inventory:** Inventory levels are a concern heading into the summer season, with some product deliveries reverting to air freight, ultimately impacting gross margin.

Briscoe Group (BGP) – Trading update 11 December

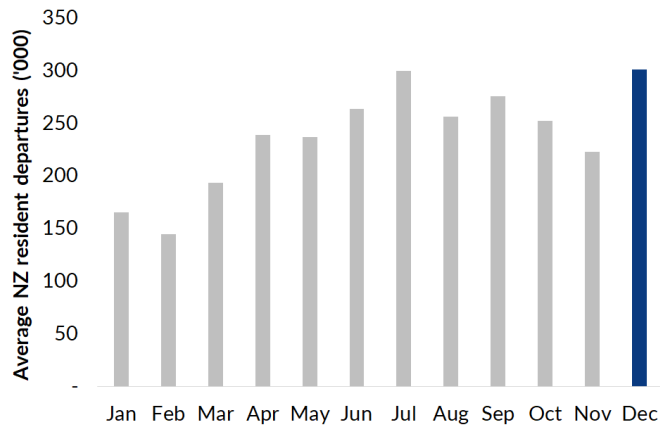
- **Recent sales:** Trading momentum has continued to be strong into 4Q21, with record Black Friday sales (3Q21 group sales up +15%).
- **Guidance:** Confident momentum will continue through Christmas, guiding to FY21 NPAT in excess of the NZ\$62.6m in FY20 (Forsyth Barr NZ\$65.8m).

The Warehouse Group (WHS) – Trading update 21 December

- **Recent sales:** Group sales are up +6.6% financial year to date against the prior comparable period, with Noel Leeming and Torpedo7 being standouts. In addition, WHS is benefitting from gross margin expansion, c. +170bp ahead of the prior year period.
- **Inventory:** Sufficient stock is in place ahead of the peak Christmas periods, with scope for some shortages in 4Q21.
- **Christmas Guidance:** WHS expects momentum to continue through the remainder of the Christmas sales period, and have guided to 1H21 underlying group NPAT in excess of NZ\$70m, up more than +50% on the prior year period.

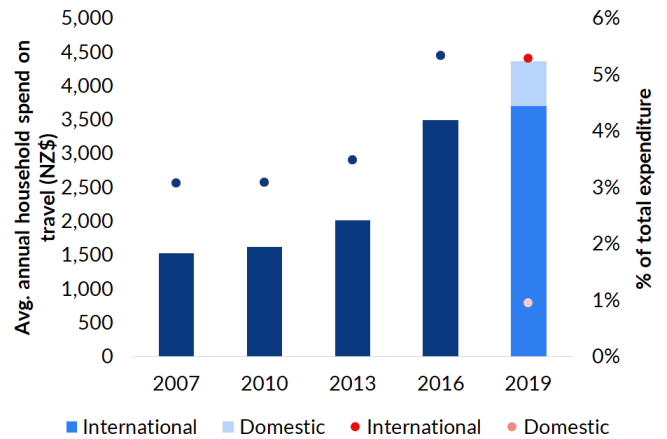
Christmas expectations in charts

Figure 2. Borders remain shut creating a captive market...



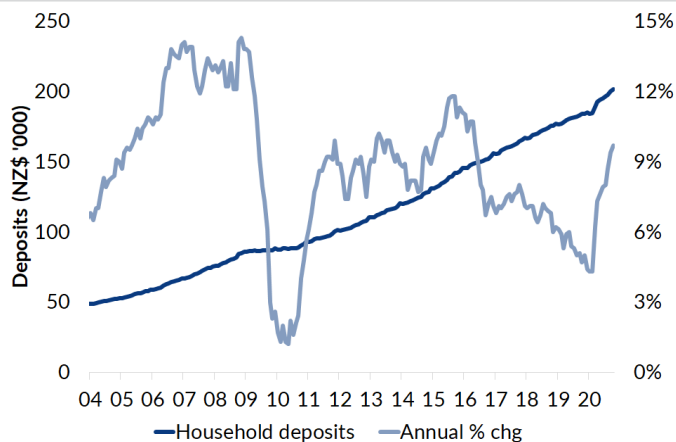
Source: Stats NZ, Forsyth Barr analysis

Figure 3. ... with travel spend looking for some where to go



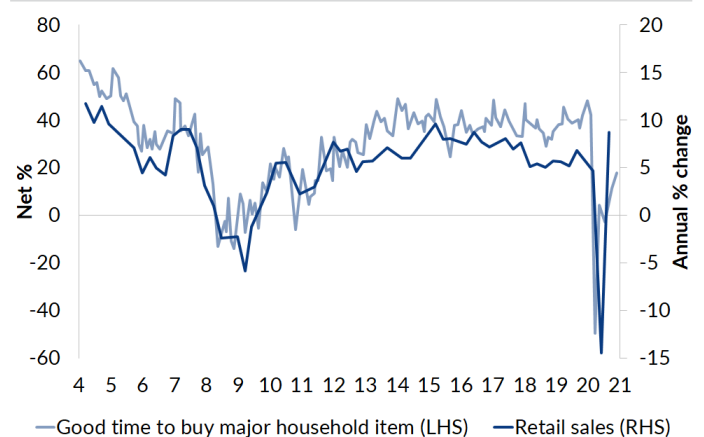
Source: Stats NZ, Forsyth Barr analysis

Figure 4. Household deposits surged during lockdown and have remained elevated...



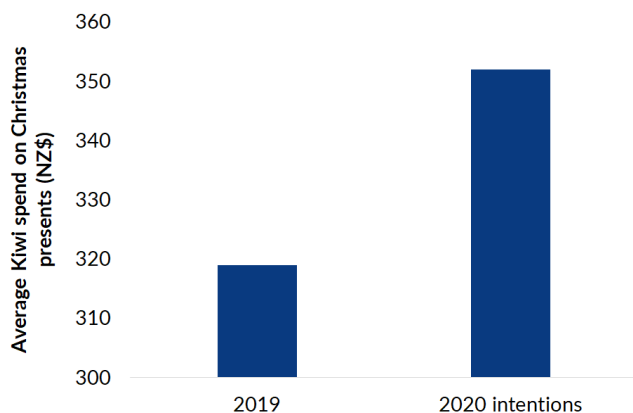
Source: RBNZ, Forsyth Barr analysis

Figure 5. ...supporting a sharp recovery in consumer appetite to spend



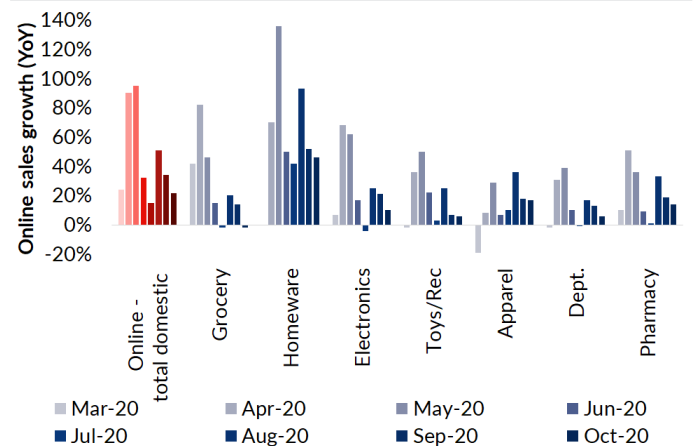
Source: ANZ, Forsyth Barr analysis

Figure 6. Kiwi's feeling more generous with intention to spend on presents up +10%...



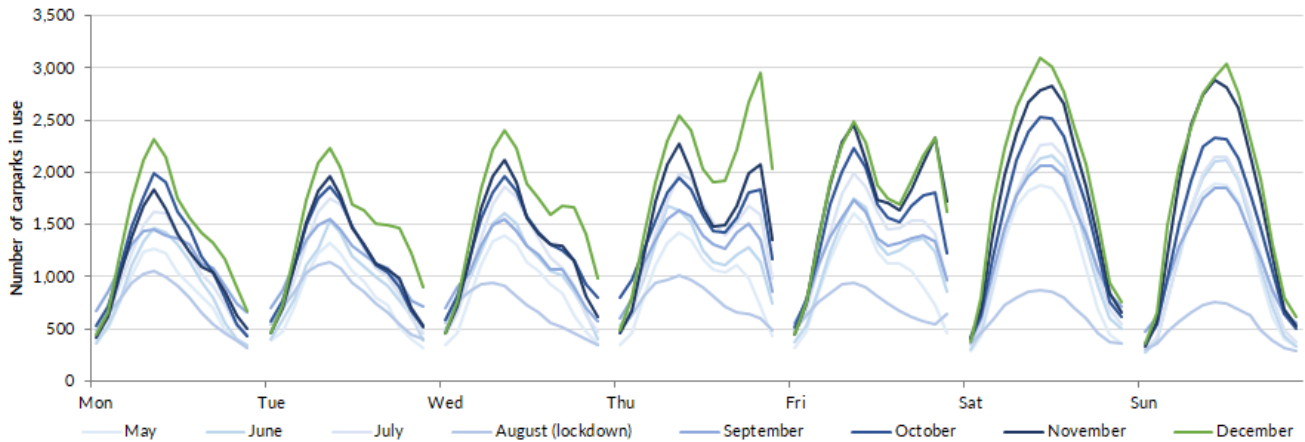
Source: Finder, Forsyth Barr analysis, survey n = 2,000

Figure 7. ...domestic retailers with an online presence a clear 2020 beneficiary to date



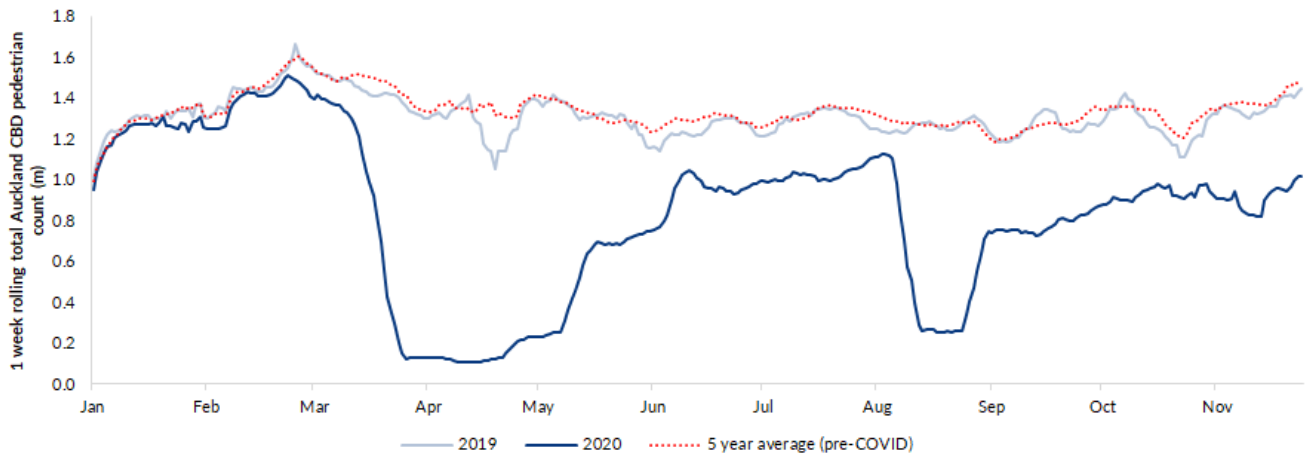
Source: Marketview, Forsyth Barr analysis

Figure 8. Sylvia Park carpark tracker shows foot traffic building at malls...



Source: Forsyth Barr analysis, KPG

Figure 9. ...However, Auckland CBD foot traffic remains subdued



Source: Forsyth Barr analysis, Heart of the City

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